



# Barriers to Accessing Government Financial Support for Entrepreneurs in Mthatha

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## Abstract

Despite the critical role of entrepreneurs in economic development, access to government financial support remains a significant challenge in under-resourced regions. This study examines the barriers entrepreneurs in Mthatha, Eastern Cape, face when seeking public funding. Framed by Institutional Theory, the research conceptualises these hurdles as a misalignment between entrepreneurs' informal practices and the formal, rigid institutional demands of support systems. Through a purposive sample size of 15 established micro-entrepreneurs and semi-structured interviews, the study identified five interconnected systemic barriers: a daunting, opaque information landscape; prohibitive administrative and financial costs; perceptions of unfairness and non-transparent processes; a critical reliance on personal networks; and a significant emotional toll, leading to frustration and resignation. The findings reveal that a cycle of exclusion in which information asymmetry forces reliance on social capital, while financial burdens and procedural opacity compound the system's inaccessibility. This study contributes to the literature by providing a granular analysis of these barriers, highlighting how coercive, mimetic, and normative isomorphism manifests in the local funding ecosystem. The implications call for a fundamental redesign of support schemes, moving from a compliance-centric to a user-centric model to emerging entrepreneurs. The study recommends a proactive multi-channel communication, simplification and decentralisation of application processes, enhanced transparency, capacity building for officials, and a review of restrictive eligibility criteria. This research provides policymakers with evidence-based insights to transform financial support into a practical tool for inclusive local economic development.

**Keywords:** Entrepreneurial finance, government support, administrative barriers, institutional theory, Mthatha, qualitative research, small business, South Africa.

## 1. Introduction

Entrepreneurs are universally acknowledged as vital engines of economic growth, job creation, and innovation, particularly in developing economies. In South Africa, government financial support schemes are crucial instruments for fostering entrepreneurial activity and addressing pressing socio-economic challenges, such as unemployment. However, a persistent paradox exists, especially in underdeveloped regions such as Mthatha in the Eastern Cape: despite the availability of funding, a significant number of entrepreneurs encounter formidable barriers that prevent them from accessing this crucial capital, thereby stifling local economic development.

Existing research provides a foundational understanding of these challenges. Studies have identified widespread systemic barriers, including bureaucratic inefficiencies and complex regulatory environments, which hinder access to public finance (Khan & Ntsaluba, 2021; Chimunya & Dube, 2022). Informational gaps, where entrepreneurs lack awareness of available programs or struggle to understand application processes, are also well-documented obstacles (Moyo, 2021). Furthermore, socio-cultural factors and the prohibitive costs associated with applying have been shown to disproportionately exclude certain groups, such as women and micro-entrepreneurs (Smith & Taylor, 2023; Ligthelm, 2013). While this body of work highlights general challenges, critical gaps remain when applied to specific local contexts, such as Mthatha.

What is missing is a granular, localised investigation into the precise administrative, relational, and financial hurdles that define the day-to-day reality for Mthatha's entrepreneurs. The current knowledge lacks detail on which specific procedural steps, be they labyrinthine forms, opaque documentation requirements, or protracted processing times, are most debilitating. Furthermore, the influence of interpersonal dynamics with officials and the cumulative burden of hidden application costs in this specific region are underexplored. This lack of context-specific insight leaves policymakers without the precise data needed to design effective, targeted solutions for the Eastern Cape.

Addressing this gap is critical. Without a clear understanding of the localised barriers, well-intentioned national support policies may continue to fail at the point of delivery in towns like Mthatha, perpetuating economic marginalisation. Therefore, this study aims to systematically identify and analyse the key hurdles that impede entrepreneurs in Mthatha from accessing government financial support.

The primary objective is to identify and address the specific administrative, relational, and financial bottlenecks within the application process. To achieve this, the study

- 1) To identify and rank the prevalence of specific administrative hurdles.
- 2) To analyse the nature of entrepreneur-official interactions and perceived transparency.
- 3) To evaluate the prohibitive impact of associated costs; and
- 4) To synthesise findings into actionable recommendations for policymakers.

By doing so, this research seeks to provide evidence-based insights that can transform financial support schemes from inaccessible promises into practical tools for inclusive economic development in Mthatha. Therefore, the paper is organised as follows: Literature review, Research methodology, results, discussions, and implications of the study.

## 2. Literature Review

The study is anchored and guided by the institutional theory

### 2.1 Institutional theory

The Institutional theory was developed by DiMaggio and Powell in 1983. In their seminal work, they argued that organisations become homogenised primarily to gain legitimacy and ensure survival within their institutional environment, rather than solely for reasons of efficiency (DiMaggio & Powell, 1983). The theory posits that all organisations, including government agencies and entrepreneurial ventures, are embedded within a broader social framework of formal and informal rules, norms, and beliefs collectively termed "institutions" (Scott, 2014). These institutions exert powerful pressures for conformity, which DiMaggio and Powell (1983) categorised into three mechanisms of institutional isomorphism: coercive isomorphism (pressures from regulations and cultural expectations), mimetic isomorphism (copying others in times of uncertainty), and normative isomorphism (pressures from professional standards and networks). For an entrepreneur, accessing state support necessitates navigating both this formal institutional environment of laws and procedures and the informal environment of unwritten rules and relational practices.

This theoretical lens is highly relevant to analysing barriers in Mthatha, as it frames the challenges as a fundamental misalignment between entrepreneurs' informal, localised practices and the formal, rigid institutional demands of government support systems. For instance, complex administrative hurdles can be interpreted as manifestations of coercive isomorphism, where standardised bureaucratic procedures are imposed to satisfy regulatory logics at the expense of local usability (Scott, 2014). Similarly, problematic interactions and a lack of transparency are related to the informal institutional environment, where entrepreneurs may lack the social capital to decode unwritten norms, resulting in normative exclusion. Furthermore, the prohibitive costs of application can be understood through mimetic isomorphism, as the institutional framework is designed to mirror a model of a "legitimate" applicant with certain resources, thereby systematically sidelining those who do not conform to this model. By applying this framework, the study moves beyond merely listing barriers to explaining why these specific institutional forms persist and how they collectively function to exclude local entrepreneurs, thereby directly supporting the research objectives of identifying and analysing the administrative, relational, and financial hurdles to access.

### 2.2 Empirical literature

#### 2.2.1 Administrative and Bureaucratic Hurdles

A dominant theme in the literature is the stifling effect of administrative complexity on entrepreneurs seeking formal finance. Scholars consistently identify labyrinthine application procedures, opaque documentation requirements, and protracted processing times as significant barriers (Khan & Ntsaluba, 2021; Ligthelm, 2013). These bureaucratic inefficiencies, often designed for compliance and risk mitigation, create a mismatch with the realities of small-scale entrepreneurs, particularly in under-resourced regions. Scott (2014), from an institutional theory perspective, frames these as manifestations of *coercive isomorphism*, where standardised procedures are imposed to satisfy regulatory logics at the expense of local usability and accessibility.

#### 2.1.2 Informational and Awareness Gaps

A critical barrier is the lack of awareness and clarity regarding available support programs. Empirical studies indicate that entrepreneurs, particularly in township and rural economies, frequently operate with incomplete or inaccurate information regarding funding opportunities, eligibility criteria, and application processes (Moyo, 2021; Chimunya & Dube, 2022). This information asymmetry creates a foundational obstacle: potential applicants are excluded not by merit or need, but simply because of a lack of knowledge. This gap is often compounded by the ineffectiveness of traditional government communication channels in reaching grassroots entrepreneurial networks.

#### 2.2.3 Relational and Interactional Factors

The literature underscores that access is not merely a transactional process but a relational one. The nature of interactions with government officials, encompassing perceived transparency, responsiveness, and fairness, profoundly shapes entrepreneurial engagement. Negative experiences, perceived bias, or a lack of trust in the system can deter applications as effectively as formal rules (Ligthelm, 2013). From an institutional perspective, this relates to the informal institutional environment and normative pressures, in which unwritten rules and cultural capital determine who can successfully navigate the system (DiMaggio & Powell, 1983).

#### 2.2.4 Financial and Resource-Based Constraints

Beyond the funding itself, the direct and indirect costs of applying present a prohibitive barrier. Research highlights that those expenses related to travel to government offices, fees for certified documents, professional advisory services, and the need for reliable internet and printing facilities can be insurmountable for micro-entrepreneurs and startups (Berry et al., 2002; Smith & Taylor, 2023). These costs introduce a structural bias, filtering out the most resource-constrained applicants who may be in the greatest need of support, effectively creating a paradox in which the process for obtaining funding is itself unaffordable.

### 2.2.5 Socio-Cultural and Contextual Factors

Broader socio-cultural norms and localised contextual realities are critical mediating factors. Studies indicate that gender, ethnicity, educational background, and existing social networks significantly influence an entrepreneur's propensity and ability to seek formal support (Moyo, 2021). In specific contexts, such as Mthatha, historical patterns of economic marginalisation, spatial geography, and the strength of informal economic networks further shape how these universal barriers are experienced and perceived, necessitating a localised rather than a generalised analysis (Chimunya & Dube, 2022).

## 3. Research Methodology

This study employed a qualitative methodology to explore the multifaceted barriers that entrepreneurs in Mthatha face when accessing government financial support. An interpretivist philosophy guided the research, focusing on understanding participants' subjective meanings and socially constructed experiences (Saunders et al., 2019). An inductive approach was adopted to allow key themes and conclusions to emerge directly from the data rather than testing a pre-existing theory (Creswell, 2013). The research design was an exploratory case study, with the "case" defined as the experiences of Mthatha-based entrepreneurs navigating the financial support system. This design facilitated an in-depth examination of the phenomenon within its real-world context (Yin, 2014). Purposive sampling was used to select 15 participant-entrepreneurs with direct experience seeking government funding, ensuring data richness and achieving theoretical saturation (Patton, 2015).

Primary data were collected through semi-structured interviews, allowing for a guided yet flexible exploration of key themes (Rubin & Rubin, 2012). The data were analysed using thematic analysis, following Braun and Clarke's (2006) systematic process of familiarisation, coding, theme development, and review. NVivo software assisted in data management. To ensure trustworthiness, strategies such as triangulation (using multiple data sources), member checking, and maintaining an audit trail were implemented (Lincoln & Guba, 1985). Ethical protocols were strictly followed, including obtaining informed consent, ensuring participant anonymity and confidentiality, and securing ethical approval from the relevant institutional committee.

## 4. Results

### 4.1 Data on participant profiling

The study engaged a purposive sample of 15 entrepreneurs operating small businesses in Mthatha, Eastern Cape. The demographic profile of the participants is detailed in Table 1. The sample was nearly gender-balanced, comprising eight (53%) male and seven (47%) female entrepreneurs. The types of businesses reflected a mix of service-oriented and skilled trade enterprises, with some alignment to traditional gender roles: women were predominantly in catering, beauty, and cleaning services, while men were more represented in fields such as automotive repair, electrical services, and carpentry.

Regarding business maturity, most participants operated established micro-enterprises. Twelve participants (80%) had been in operation for four years or more, indicating a focus on entrepreneurs beyond the initial start-up phase. Despite this stability, the businesses remained small-scale, with 13 participants (87%) employing 3 or fewer people. The need for financial support was evident, as twelve participants (80%) reported having actively applied for government funding. The three non-applicants included businesses at various stages, from a one-year-old clothing venture to more established operations in car washing and T-shirt printing, suggesting diverse reasons for not pursuing formal support, such as bootstrapping, perceived ineligibility, or a lack of awareness.

**Table 1:** Demographic and Business Profile of Participants

Participant ID	Gender	Type of Business	Years in Operation	Number of Employees	Applied for Funding
Participant A	Male	Car Repair & Tire Shop	12 Years	3	Yes
Participant B	Male	Catering	2 Years	0	Yes
Participant C	Female	Catering	2 Years	1	Yes
Participant D	Female	Skin Care Beauty	7 Years	3	Yes
Participant E	Male	Clothing	1 Year	0	No
Participant F	Female	Carpentry	9 Years	2	Yes
Participant G	Female	Farming	4 Years	3	Yes
Participant H	Female	Beauty Styling	7 Years	1	Yes
Participant I	Male	Event catering	9 Years	7	Yes
Participant J	Female	Cleaning services	4 Years	2	Yes
Participant K	Female	T-shirt designing and printing	5 Years	1	No
Participant L	Male	Lawn Mower	6 Years	1	Yes
Participant M	Male	Electrical Services	6 Years	2	Yes

Participant N	Female	Car wash	7 Years	4	No
Participant O	Male	Tailoring	6 Years	1	Yes

## 4.2 Key Findings Presentation

Analysis of data from 15 entrepreneurs in Mthatha (see Table 1) revealed a demographic of predominantly established, small-scale microenterprises in the service sector, with a strong, ongoing need for financial support beyond the start-up phase. The Thematic analysis of interview data identified five interconnected systemic barriers impeding access to government funding.

### Theme 1: Entrepreneurs confront a daunting and opaque information landscape

entrepreneurs confront a daunting and opaque information landscape. A pervasive lack of clear, accessible information on programs and procedures prevents many from even beginning an application, with some learning of opportunities only after deadlines have passed (Participant O). This initial information asymmetry creates a critical disadvantage.

### Theme 2: Burden of administrative and financial costs.

The process imposes a significant burden of administrative and financial costs. Expenses for travel, document certification, professional services, and internet access act as a prohibitive filter, disproportionately affecting cash-strapped businesses (Participant A, H). These “hidden fees” exacerbate existing financial constraints.

### Theme 3: Unfair, non-transparent, and exclusionary

Third, the system is perceived as unfair, non-transparent, and exclusionary. Entrepreneurs reported a lack of feedback on unsuccessful applications and cited restrictive eligibility criteria—such as age limits or required years in operation—as arbitrary barriers that exclude viable businesses (Participant C, H). This fuels frustration and a sense of powerlessness.

### Theme 4: Personal networks

Fourth, personal networks are seen as critically important yet unevenly distributed. The widespread perception that success hinges on “whom you know” within government offices (Participant A, G) fosters a belief in a two-tiered system, severely undermining trust in procedural fairness.

### Theme 5: Heavy emotional toll

Finally, navigating these hurdles exacts a heavy emotional toll. The cumulative experience is described as “draining” and “frustrating,” leading to feelings of resignation and disrespect. While some display resilience, it is often a function of having no alternative funding sources rather than optimism (Participants C and G).

The results depict a support ecosystem that is difficult to access, costly to navigate, and perceived as inequitable. The barriers are not isolated but interact, creating a cycle of exclusion where a lack of information forces reliance on personal networks, while financial and procedural burdens compound the frustration of an opaque and slow process

## 4.3 Discussion of Findings

The findings of this study reveal a complex ecosystem of barriers that collectively hinder entrepreneurs in Mthatha from accessing government financial support. These barriers are not isolated but form a reinforcing cycle of exclusion, aligning with and extending existing scholarly literature on entrepreneurial finance and institutional theory.

### 1. The Foundational Barrier

**Information Asymmetry and Opacity:** The most immediate hurdle identified was a daunting, opaque information landscape. Entrepreneurs struggled to find clear, reliable information on programs, eligibility, and procedures, and some discovered opportunities only after the deadlines had passed. This finding directly corroborates the established concept of “information opacity” in SME finance (Berger & Udell, 1998). While traditional literature frames this as a problem for lenders assessing risky SMEs, this study flips the perspective, revealing that the government’s support mechanisms are opaque to entrepreneurs. This creates a critical market failure at the point of access. Research in the South African context confirms this; Chimucheka (2013) identified a “lack of information about support institutions” as a major constraint for Eastern Cape SMEs, noting that poor marketing and outreach leave rural entrepreneurs unaware. Furthermore, when formal channels fail, entrepreneurs rely on informal networks for “soft information” (Ligthelm, 2013). The failure of officials to provide “straight answers” (as reported by participants) signifies a breakdown in this vital informal channel, deepening the information gap.

### 2. The Filtering Mechanism

**Administrative and Financial Burden** The burden of administrative and financial costs acted as a powerful filter, disproportionately excluding resource-constrained entrepreneurs. Costs for travel, certification, data, and professional services, such as accountants, created a prohibitive barrier. This aligns strongly with the concept of “administrative burden” in public policy, which demonstrates how learning, compliance, and psychological costs can reduce program take-up (Moynihan, Herd, & Harvey, 2015). Jones (2018) similarly found that such burdens fall heaviest on smaller enterprises. From an institutional theory perspective (DiMaggio & Powell, 1983), these burdens are a manifestation of coercive isomorphism, standardised bureaucratic procedures designed for audit and control that ignore local socio-economic realities. The implication is that the application process may be systematically biased against the very micro-entrepreneurs it aims to uplift, favouring those with the upfront capital to navigate it.

### 3. The Erosion of Trust

Dependency Findings related to perceived unfairness and the critical role of personal networks reveal a deep erosion of trust in the system’s legitimacy. The lack of feedback on rejections and the use of restrictive criteria

(e.g., age limits) were seen as arbitrary and exclusionary. This resonates with Brown's (2019) work on how opaque processes undermine public trust. More critically, the widespread belief that success depends on "whom you know" (normative isomorphism) points to a system where access is perceived to be governed by social capital rather than merit. Williams (2021) highlights how such network dependency creates inequitable access to resources. This perception fosters a two-tiered system, discouraging entrepreneurs without connections and delegitimising the process in the community's eyes.

#### **4. The Human Cost**

Finally, the study captures the significant emotional toll of frustration, resignation, and feelings of disrespect inflicted by this bureaucratic maze. This aligns with Anderson's (2017) research on how negative institutional interactions can deplete entrepreneurial motivation and persistence. The "resilience" displayed by some participants appears less a trait of optimism and more a "forced resilience" born from a lack of alternatives, highlighting a state of vulnerable dependency rather than empowered pursuit of growth.

#### **4.4 Implications**

These findings have multi-fold implications for Policy and Practice. The interconnected nature of these findings suggests that isolated interventions will be insufficient. Funding agencies must move beyond passive web portals. This requires proactive, multi-channel outreach (including community radio, local NGOs, and simplified guides) in clear language, with transparent timelines and open feedback loops for all applicants; Policy should explicitly aim to reduce application costs. This could involve decentralising services to rural areas, subsidising certification fees, providing dedicated application support centres, and accepting simpler, standardised business proofs for micro-enterprises; Transparency must be engineered into the process. This includes automated application acknowledgement, clear reasons for rejection, and the use of standardised, publicly known scoring rubrics. The criteria should be reviewed for inclusivity, striking a balance between targeted support and broad accessibility. Frontline officials require training not only in procedures but also in client service and communication. Their role should be reframed from gatekeepers to facilitators, which could help repair the broken informal information channel.

### **5. Recommendations, Limitations, and Future Directions**

#### **5.1 Recommendations**

Based on the identified systemic barriers, the following evidence-based recommendations are proposed for policymakers, government agencies, and support institutions to enhance the accessibility and effectiveness of financial support for entrepreneurs in Mthatha and similar contexts.

Government agencies must move beyond passive, web-based information dissemination. A coordinated outreach campaign should be implemented through local radio, community workshops, partnerships with business associations (e.g., SEDA and local chambers), and printed materials in simple, accessible language. Regular, scheduled announcements of funding windows and clear, step-by-step guides should be distributed proactively to bridge the information asymmetry gap.

To reduce administrative and financial burdens, application procedures should be streamlined. Recommendations include creating a single, simplified application form for micro-enterprise grants; Establishing mobile or satellite support centres in township and rural areas to minimise travel costs; Officially waiving or subsidising costs for document certification and business plan development for qualifying applicants; and developing a centralised digital portal with offline capabilities for areas with poor internet connectivity.

To address perceptions of unfairness, the process must become visibly more transparent. This can be achieved by: Implementing an automated system to acknowledge receipt of applications and provide status updates; mandating that all unsuccessful applicants receive a brief, standardised written explanation for the decision; and publicising clear, merit-based selection criteria and publishing anonymised summaries of successful applications to demonstrate fairness.

Training programs should be developed for government staff who interface with entrepreneurs, focusing not only on procedural knowledge but also on client service, communication skills, and an understanding of small-business challenges. This can help transform officials from gatekeepers to facilitators, improving the relational experience and rebuilding trust.

Policymakers should critically assess restrictive criteria—such as strict age limits or minimum years in operation—that may exclude viable, needy businesses. A more flexible points-based system could balance targeted support (e.g., for youth or women) with broader accessibility for established micro-enterprises seeking growth capital.

#### **5.2 Limitations of the Study and Future Research**

While this study provides important insights, several limitations must be acknowledged:

The findings are based on entrepreneurs in Mthatha, Eastern Cape. The socio-economic, institutional, and cultural context of this region may limit the direct transferability of results to major metropolitan areas or other provinces without further research. The qualitative, purposive sample of 15 entrepreneurs, while sufficient for thematic saturation, is not statistically representative. The experiences of non-applicants or those in other sectors (e.g., technology, manufacturing) may be underexplored. The findings are based on participants' perceptions and retrospective accounts of their experiences, which may be subject to recall bias or social desirability bias. The study did not include direct observation of application processes or analysis of official rejection data. The exclusive use of qualitative interviews, while rich in depth, could be strengthened by methodological

triangulation. Incorporating quantitative surveys of a larger population or direct analysis of application and approval statistics would provide a more comprehensive view.

To build upon this study and address its limitations, future research should consider: a comparative study of barriers across different municipalities or provinces in South Africa to identify context-specific versus nationwide challenges. Longitudinal studies tracking applicants over time could measure the impact of process reforms on success rates and business outcomes. A large-scale survey quantifying the prevalence and ranking of barriers identified here would strengthen the evidence base. Research could also analyse administrative data from funding agencies to identify bottlenecks in processing times and approval patterns. Future work should investigate how barriers compound for specific subgroups, such as women, youth, or rural entrepreneurs, using an intersectional lens. Studies focusing on high-growth potential sectors (e.g., tech, green economy) could inform targeted support strategies. As recommendations are implemented, action research or program evaluation studies are needed to assess the effectiveness of new communication strategies, simplified forms, or decentralised services in actually improving access and entrepreneurial outcomes. Research into the role of fintech platforms, blockchain for transparent record-keeping, or AI-assisted application tools could explore technological innovations for reducing opacity and administrative burden in emerging market contexts.

By addressing these limitations and pursuing these future directions, scholars and practitioners can contribute to designing more inclusive, efficient, and impactful entrepreneurial support ecosystems

## Conclusion

This study illustrates that the barriers to government financial support in Mthatha are systemic, rooted in institutional design that prioritises control over accessibility. The findings, supported by established literature, show how information opacity, administrative burdens, perceived inequity, and network dependency interact to exclude a significant portion of the entrepreneurial population. Addressing this requires a fundamental re-orientation of support schemes from a compliance-centric model to a user-centric, facilitative one that acknowledges and designs for the real-world constraints of local entrepreneurs.

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